

Senator Charles Poochigian



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SECOND TRY AT BUDGET FAILS PASSAGE ON SENATE FLOOR

"This budget plan offered today does absolutely nothing to get the state's fiscal house in order. The minute this budget passes, the state budget will be \$9.5 billion in the hole. It fails to tame outrageous state spending and at the same time increases taxes by billions and billions of dollars. It is simply unsupportable."

– Senator Chuck Poochigian

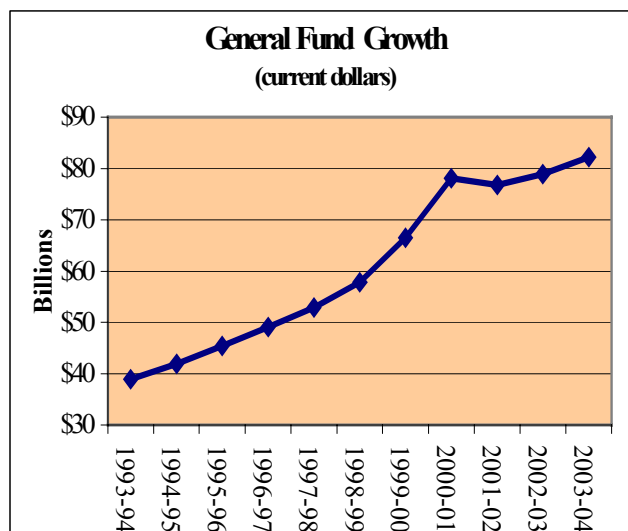
The Senate took up the \$79 billion state spending plan this week. The new bill – Assembly Bill 1769 – still includes massive tax increases, and is an unsupportable proposal for many other reasons as well.

WHAT'S IN – WHAT'S OUT

This budget is very similar to a version of the budget already proposed by the Senate majority last month. The most notable changes are the elimination of the cigarette tax increase as well as the personal income tax increase proposals. In addition, this version of the budget completely eliminates the local government realignment proposal, but adds another \$1.5 billion in bonded indebtedness. This version of the budget does not even include the \$1.6 billion in basic cuts which were proposed by the Governor.

TRUTH IN BUDGETING

Despite the state's massive budget crisis, the budget under consideration actually spends billions *more* than the state spent last year. By redefining expenditures, the Governor and others claim to be cutting spending. **The Governor considers the increase in the car tax to be a cut in state spending since the state will no longer pay for the reduced rates.** However, when one eliminates the accounting tricks and gimmicks, actual spending continues to rise.



WHAT IS THE STATE'S *REAL* EXPENDITURE LEVEL?

Governor's Claim:

\$72.1 Billion

Accounting Adjustments:

Car Tax Increase -\$4.192 B

Fund Shifts -\$600 M

Medi-Cal Acct. -\$1.046 B

PERS/STRS -\$1.397 B

New Fed. Funds -\$250 M

ACTUAL Expenditures:

\$80 Billion

(\$2.9% more than 2002-03)

JUNE 24, 2003

BUDGET STILL CONTAINS TAX INCREASES

This new version of the budget still includes massive tax increases, including the following:

Tripling of the Car Tax	\$4.2 Billion
½-Cent Sales Tax Increase	\$2.3 Billion
Unemployment Insurance Tax Increase	\$3 Billion
Workers' Compensation Fees Mandates employers pay 100% cost of administration	\$73.7 Million
Manufacturers' Investment Tax Credit Reduces eligibility for bakery operations in supermarkets	\$50 Million
Regulated Investment Companies (RICs) Prevents banks from utilizing RICs	\$45 Million
Governor's "Polluter Pays" Initiative Additional Mill Assessment	\$24 Million
Increased Waste Discharge Fees	\$20.4 Million
Increased Air Permit Fees	\$14 Million
Miscellaneous Fee Increases	\$1 Billion

MASSIVE BORROWING PROPS UP SENATE BUDGET

This budget contains \$13.6 billion in new borrowing. Central to this proposal is the long-term borrowing scheme which allows the state to issue \$10.7 billion in bonds, and pay for them with the \$2.3 billion annual sales tax increase. The Governor suggests that the tax increase would remain intact for at least five years – and probably longer – in order to pay the bond issuance costs and the interest costs, along with the actual \$10.7 billion principal.

This budget proposal also includes \$1.8 billion in pension obligation bonds which provides medium-term debt to finance retirement benefits for state workers.

In addition, this budget proposal includes \$1.5 billion in additional borrowing, based on the tobacco settlement funds as the repayment revenue stream. Unfortunately, last year's budget proposed a similar borrowing scheme that was never realized because the bonds were not saleable. It is unclear what has changed that would make these bonds more saleable today.

CUTS TO LOCAL GOVERNMENT

This budget proposal would cut more than \$1.2 billion to local government entities:

- \$852 million from Vehicle License Fee backfill
- \$32 million from the COPS/Juvenile Justice Programs
- \$5 million from the War of Methamphetamine
- \$38 million in booking fees
- \$250 million in a Redevelopment property tax shift
- \$18 million from Local Correctional Officer Training Reimbursement

MASSIVE EXPANSION OF STATE GOVERNMENT

The following chart displays the major budget cuts proposed by the Governor in the May Revision. As the table shows, AB 1769 rejected most of these cuts. In fact, adopting the cuts proposed by the Governor in May would save \$1.6 billion.

May Revision Proposed Cuts By Governor Davis Not Included in AB 1769**General Fund
(Dollars in thousands)**

<u>ISSUE</u>	<u>Amount</u>
<u>Human Services</u>	
Eliminate Senior Nutrition Program	-2,900
Eliminate Brown Bag Program	-900
Eliminate Senior Companion Program	-500
Eliminate Child Development Policy Advisory Committee	-400
Eliminate Department of Community Services & Development Naturalization Services Program	-2,900
Reduce Supported Employment Program rates by 5 percent	-1,500
Eliminate Foster Parent Training Program fund transfer	-2,600
Suspend CalWORKS COLAs	-80,300
Suspend SSI/SSP COLAs	-372,300
Use Temporary Assistance for Needy Families funds for In Home Supportive Services	-54,100
Eliminate Independent Adoptions Program	-3,800
Increase Veteran Home Member fees	-1,200
Reduce Veterans Claims and Rights Program	-700
<u>Health</u>	
Elimination of Selected Medi-Cal Optional Benefits	-209,700
Fifteen Percent Medi-Cal Provider Rate Reduction (including nursing homes and managed care)	-607,300
Moratorium on Adult Day Health Care and Amend Rate - Savings	-9,850
2003 Medi-Cal Anti-Fraud Initiative	-2,863
Encourage Enrollment of Aged, Blind, and Disabled into Managed Care	-547
Roll Back of Aged and Disabled Program Expansion	-49,952
AIDS Drug Assistance Program Copayment Proposal	-1,448
Reduce the Expanded Access to Primary Care Program	-2,350
Reduce the Adolescent Family Life Program	-1,621
Parental Co-Payment Assessment Program	-1,757
Unallocated Reduction in the Regional Center Budget (Governor had proposed statewide standards for DDS Regional Centers)	-47,000
Community Services Activities in Mental Health	-2,030
Ten-Percent Reduction to Mental Health Managed Care	-23,011
Partial Funding for Early Mental Health Initiative	-10,000
<u>K-12 Education</u>	
Basic Aid Reallocation/Reduction	-10,114
Participation of Youth in ROC/P	-12,000
SDE State Ops Reduction	-6,742
Eliminate School to Career Program	-2,000
<u>California State Library</u>	
Public Library Foundation	-14,766
<u>Resources and Environment</u>	
Eliminate health benefits to Conservation Corps members	-2,300
Eliminate local Conservation Corps contracts	-846
Timber Harvest Plan review	-425
Eliminate Chromium 6	-462
<u>General Government</u>	
Department of Fair Employment and Housing	-2,218
Emergency Housing Assistance Program	-1,300

May Revision Proposed Cuts By Governor Davis Not Included in AB 1769

General Fund (Dollars in thousands)

<u>ISSUE</u>	<u>Amount</u>
<u>Public Safety/Judiciary</u>	
Trial Courts - Electronic reporting	-\$31,000
Trial Courts - Court Security Flexibility	-22,000
Eliminate Law Revision Commission	-572
Eliminate Commission on Uniform State Laws	-138
Totals	\$1,600,412

CONTACT INFORMATION

Senator Poochigian's website can be found by visiting: <http://republican.sen.ca.gov/web/14> .

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